

ICPS newsletter

Ukrainian consumer confidence rebounds following a temporary decline

Following a temporary worsening over Q1'02, the consumer confidence of Ukrainians looked up in Q2'02. In June, the Consumer Confidence Index rose by 4.1 points compared to March. Simultaneously, most people again fell back into pessimism as concerns national economic development in the short run. The results of the survey of Ukrainian consumers are presented in the current issue of the Consumer Confidence bulletin, which is a joint project of ICPS and the GfK-USM company

According to the June survey, which spanned the period from April to June 2002, Ukrainian consumer confidence improved. Over the survey period, the Consumer Confidence Index (CCI) gained 4.4 points—from 90.9 to 95.3. The June index value beat the record-high one of the last December by 0.4 points. Thus, the deterioration of consumer confidence reported in March proved to be transient. ICPS experts cite an intensified feeling of insecurity prior to the elections to the Verkhovna Rada to be one of the reasons for that temporary deterioration of consumer confidence. We should note that during the June survey this indicator was no longer relevant to consumer expectations.

Consumer confidence was also driven up by the continuing growth of real wages and real disposable personal incomes. Over

H1'02, these indicators were moving up at almost the same rate as last year. Compared to the March survey, this time more people reported an improvement of their personal material situation; the Index of the Current Situation (ICS) picked up by 4.6 points (from 78.4 to 82.9). The Index of Economic Expectations (IEE) grew by 4.3 points (from 99.2 to 103.6), which was largely triggered by mostly positive expectations among Ukrainians regarding changes in their personal material situation (x2 index).

In the meantime, the economic growth rate in H1'02 slowed down almost by half compared to last year. The results of the consumer confidence survey also reflect a gap between the overall economic growth dynamic and the growth rate of personal incomes. Despite mostly optimistic estimates regarding personal material situation (the corresponding x2 index was 108.9 points), expectations regarding economic development over the next 12 months remained chiefly pessimistic (x3 index was 98.6 points).

The last survey showed that the number of citizens increased who believe that the present time is favourable to make large household purchases.

During Q2'02, the corresponding x5 index climbed up by 4.1 points and amounted to 76.1; compared to last June, this index accrued 22.2 points. The value of the above indicator moves up when the share of consumers who report an improvement of their personal material situation increases.

Dear readers!

Please note that during July 8 – August 26 ICPS Newsletter was not issued. Starting from this issue we renew weekly publishing of the newsletter.

From June 2001 till June 2002, the index of personal material situation surged by 16.9 points.

Confidence up among average- and low-income groups

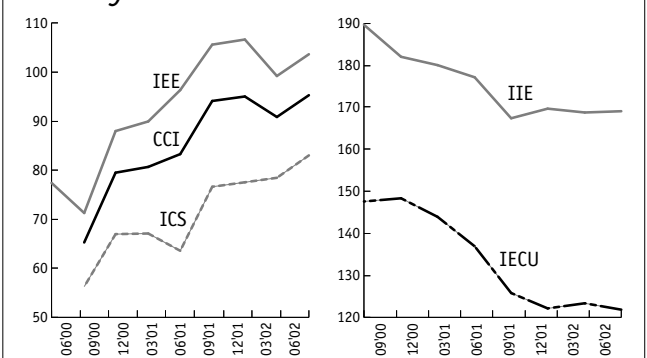
According to the analysis of the survey data by income group, consumer confidence looked up for the population with varying incomes. In the first place, such improvement touched people with lower-than-average incomes. The CCI value constructed for this group accumulated 5.6 points and reached 77.2. The index of current situation reached a high-record value, mounting by 6.5 points to 62.6 and exceeding that of last June by 19 points; this testifies that the growth of personal incomes which occurred lately had the greatest impact on the confidence and expectations of poorly provided consumer categories.

The CCI constructed for the average-income group rose by 1.9 points over the quarter and stood at 94.7, which was 0.5 points higher compared to the previous record value, reported last December. Compared to last quarter, average-income consumers saw their economic expectations improve (IEE picked up by 3.2

Index values

Index of current personal financial position (x1)	89.7 +5.0
Index of expected changes in personal financial position (x2)	108.9 +6.7
Index of expected economic conditions in the country within the nearest year (x3)	98.6 +4.1
Index of expected economic conditions in the country within the nearest 5 years (x4)	103.2 +2.2
Index of propensity to consume (x5)	76.1 +4.2
Consumer confidence index (CCI)	95.3 +4.4
Index of the current situation (ICS)	82.9 +4.5
Index of economic expectations (IEE)	103.6 +4.4
Index of expected changes in unemployment (IECU)	121.9 -1.4
Index of inflationary expectations (IEE)	169.2 +0.4

Index dynamics



points to 104), while the ICS dynamic remained flat (80.9 points).

Despite the growth, the June IEE value for the average-income group was lower compared to that of last December (106.9 in September and 106.3 in December).

Simultaneously with a moderate increase in the IEE, we observed a deepened pessimism when assessing the unemployment dynamic. The Index of the Expected Unemployment Dynamics (IEUD) constructed for this income group grew over this quarter by 5.8 points, to 123.6.

This period also witnessed a hefty increase in the capacity of well-off consumers to make large purchases. The value of the corresponding x5 index added 12.3 points and reached 104. (A value above 100 signals that most well-off people are prone to make large household purchases right now.)

Consumer confidence picked up in Eastern regions and slumped in Western ones

In Q2'02, consumer confidence improved across all regions of Ukraine save for the Western region, where compared to March, the CCI dropped by 5.1 points and stood at 95.1. For the first time in the history of the consumer confidence survey in Ukraine (inaugurated in June 2000), the CCI for the Western region was lower than the average indicator across Ukraine. Deterioration of the consumer confidence in western oblasts was due to their progressing worsening expectations regarding economic development. The value of the Index of Economic Expectations constructed for Western oblasts dived by 8.9 points and anchored at 105.2.

Over Q2'02, the CCI value constructed for the Eastern region grew most of all, i.e., by 13.8 points (up to 90). Such an improvement is apparently related to the accelerated industrial growth in Q2'02. Nonetheless, as it used to be, consumer confidence in eastern oblasts is the most pessimistic compared to all other regions of the country.

The survey led to the conclusion that at the beginning of summer, positive consumer confidence dominated among the northern and central regions (corresponding CCIs hit above 100). Obviously, during this period the consumer confidence among the population of these regions relies greatly on seasonal factors (expectations of improvements in personal material situation are boosted by incomes from future crops and the vacation season).

How consumer confidence index is calculated

In Ukraine, the CCI is determined through a random survey of the country's households; the survey includes 1,000 people aged from 15 to 59. Statistical deviation does not exceed 3.2%.

To define the CCI, the respondents are asked the following questions:

- 1. How has the financial position of your family changed over the last six months?*
- 2. How do you think your family's financial position will change in the next six months?*
- 3. Speaking of the economic conditions in the country as a whole, do you think the next twelve months will be a good or bad time for the country's economy, or something else?*
- 4. And if we are to speak of the next five years, will they be for the country's economy a good or bad time?*
- 5. Speaking of large purchases for the home (such as furniture, refrigerator, household gadgets, TV set), do you think it's generally a good or bad time to make those purchases now?*

With regard to each of these questions, the corresponding index is calculated:

- index of current personal financial position (x1);*
- index of expected changes in personal financial position (x2);*
- index of expected economic conditions in the country within the nearest year (x3);*
- index of expected economic conditions in the country within the nearest 5 years (x4);*
- index of propensity to consume (x5).*

Indexes are constructed in the following way: from the portion of positive answers the portion of negative answers is deducted, and to this difference 100 is added in order to eliminate the appearance of any negative values. On the basis of these five indexes, three aggregated indices are calculated:

- consumer confidence index (CCI)—arithmetic average of indexes x1–x5;*
- index of the current situation (ICS)—arithmetic average of indexes x1 and x5;*
- index of economic expectations (IEE)—arithmetic average of indexes x2, x3, and x4.*

Index values range from 0 to 200. The index value equals 200 when the entire population positively assesses the economic situation. The index totals 100 when the shares of positive and negative assessments are equal. Indexes less than 100 indicate the prevalence of negative assessments.

Residents of large cities show growing optimism

Over Q2'02, the consumer confidence of urban Ukrainians picked up; the CCI constructed for large cities jumped most of all—from 91.7 to 102.7 points. (An index value above 100 signals that optimistic consumer confidence dominates in large cities.) The index of propensity to consume x5, constructed for large cities, hit a record high in June, amounting to 92.7 points (for comparison, the average indicator across Ukraine was 76.1 points). Such a result can be explained by an improved material situation among the population, as well as by rapid development of the retail sector, which brought down consumer prices.

The CCI constructed for rural Ukraine showed no statistically significant changes; in June, this index equaled 94.9 points. The growth of the ICS for rural areas by 2.8 points, up to 83.2, was offset by the decline of the IEE by 2.3 points, down to 102.8. Along with that, it turned

out that economic expectations of the rural population have been worsening over two consecutive quarters.

Young people growing less optimistic

Data analysis across age groups showed that in Q2'02 consumer confidence improved due to the higher estimations and expectations of citizens of the middle and older age groups. Contrariwise, the confidence of the youngest age group (15–30 years), which usually boasts the highest share of optimists, has tended to sink over the past two quarters. Over the past quarter, the CCI value constructed for this age group dropped by 1.5 points and stood at 104.3. Increasing pessimistic expectations regarding national economic development pushed down the consumer confidence of the youngest age group, with the value of the index of economic expectations losing 2.4 points and falling to 111.2. The survey also testified that unlike the two other age groups, expectations regarding unemployment dynamics in the next 12 months grew gloomier among young people. ■

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